

# PATENT PRACTICE IN JAPAN AND EUROPE

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Wolters Kluwer  
Law & Business

# Protective Order in Japan Waves from U.S., towards Taiwan

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“Three can keep a secret if two of them are dead”

– Benjamin Franklin<sup>1</sup>

## I. INTRODUCTION

“No country’s patent system has received more criticism than that of Japan. For years among the chief complaints was that the courts gave patent claims an extremely narrow scope and that equivalents were not recognized.”<sup>2</sup> Other criticisms were its slowness and the low damages awards granted. However, this is already an old tale. “This all changed in 1998”<sup>3</sup> when the Supreme Court of Japan created case law<sup>4</sup> concerning a doctrine of equivalents which swept away the concern of too narrow an interpretation of patent claims. The Tokyo District Court and the Osaka District Court are as quick as the Düsseldorf Court or the Eastern District of Virginia, the so-called “Rocket Docket.”<sup>5</sup> The average length from filing a complaint until the judgment in the Tokyo District Court for patent cases is around one year, which is only half of the time it would otherwise have taken 10 years ago.<sup>6</sup> Damages awards

1. In his “Poor Richard’s Almanac”
2. Martin J. Adelman et al., *Cases and Materials on Patent Law* (3rd edn., West 2009), 784
3. *Id.*
4. Judgment of February 24, 1998, Supreme Court. Minshū 52-1,113.
5. The Eastern District of Texas is now jammed because of its popularity.
6. Misao Shimizu/Takafumi Kokubu, “*Tōkyō Chihō Saibansho chiteki zaisan senmon-bu to Nihon Bengoshi Rengō-kai chiteki zaisan seido i’in-kai to no iken kōkan-kai no kyōgi jikō ni kanren suru shomondai ni tsuite* [Several Issues regarding Discussion Items of Discussion Meeting between Tokyo District Court IP Specialized Division and Japan Bar Association IP System Committee]”, *Hanrei Taimuzu* 1301 (2009), 84, 86, 87

in Intellectual Property ("IP") cases became higher in their amounts than in the past, although Japan's legal system has not provided treble damages.

Now, what is lacking in the Japanese IP legal system is a tool to ease proof. Industry urged judiciary to introduce discovery-like procedures. Japan was cautious on taking this approach, noting that if the production of evidence is strengthened, protection of trade secrets should be emphasized as well. Protective orders in Japan were considered to be a tool for this issue.

In this article, we will introduce the basics of the protective order in Japan so that foreign practitioners can understand how it was formed, its general state and what issues to watch out for when litigating in Japan. We will look at the current situation, problems and the direction of future movement. Next, we will compare protective orders in Japan with those of the U.S. The two systems are different in many aspects although the Japanese protective order conceptually derived from the U.S. protective order. Finally, we will compare the protective order in Japan with the Taiwanese protective order, taking note that Taiwanese law follows that of Japan, as a survey on the responses of the protective order in Japan shows.

## II. PROTECTIVE ORDER IN JAPAN

### 1. THE LEGISLATION HISTORY

The legislation behind the protective order is one of the products of Japan's reformation of the judicial system and its national IP strategy.<sup>7</sup> Japan experienced a long economic downturn after the bubble economy collapsed in the early 1990s and found itself being threatened by Asian countries with cheap labor costs whose manufacturing skill had vastly improved. In response, the Japanese government recognized the necessity to change to a new economic model which better accommodates the global information technology era.<sup>8</sup> Recognizing that the effort of the United States to promote IP as an important strategy to develop the economy, starting during President Ronald Regan's administration, Japan, including its judicial system, took note of IP protection as a critical issue. In 2002, the then Prime Minister Mr. Koizumi addressed the commencement of Japan's New Era in IP Policy and the establishment of the "Intellectual Property Strategy Headquarters", chaired by the Prime Minister, followed in 2003. The Headquarters now serve as the organizational center of Japan's national IP strategy.<sup>9</sup>

7. Judicial system reform promotion plan. Available at <[www.kantei.go.jp/jp/singi/sihou/keikaku/020319keikaku.html](http://www.kantei.go.jp/jp/singi/sihou/keikaku/020319keikaku.html)>.
8. Intellectual Property Strategy Headquarters. Available at <[www.kantei.go.jp/jp/singi/titeki/kettei/020703taikou.html](http://www.kantei.go.jp/jp/singi/titeki/kettei/020703taikou.html)>. IP High Court. Available at <[www.ip.courts.go.jp/aboutus/history.html](http://www.ip.courts.go.jp/aboutus/history.html)>.
9. Keynote speech by H. E. Mr. Masakatsu Koike, Vice-Minister for Foreign Affairs of Japan at the Fourth Global Congress Combating Counterfeiting and Piracy (Dubai, February 3, 2008). Available at <[www.mofa.go.jp/policy/piracy/speech0802.html](http://www.mofa.go.jp/policy/piracy/speech0802.html)>.

As a result of its commercial and political background, it is of no surprise that the Japanese government's new movements are deeply influenced by the U.S. legislation. The immediate example is the establishment of law schools as graduate schools in 2004. In 2005, the Intellectual Property High Court<sup>10</sup> ("IP High Court") was established and the laws were amended to strengthen the protection of trade secrets. The introduction of protective orders is one example.

### 2. NECESSITY OF PROTECTIVE ORDERS

The law had even before the amendment already made available certain procedural means to protect trade secrets. However, these were insufficient. As Judge Takabe, IP High Court, formerly of the Tokyo District Court, wrote, "Article 92 (1) (ii) of the Civil Procedure Law provides that where the record of litigation contains trade secrets, the court may restrict the persons who may inspect or copy the part of the briefs or documentary evidence in which confidential information is contained to only the parties to the proceedings . . . . However, this restriction simply prevents third parties from inspecting and copying the record of litigation, and such protection is not available in relation to the other party to the proceedings."<sup>11</sup> Injunction and damages under the Unfair Competition Prevention Act were not sufficient for owners of trade secrets in the event that such trade secrets were released.<sup>12</sup> Due to this insufficiency, plaintiffs often hesitated to file a petition for injunction based on the Unfair Competition Prevention Act for the reason that trade secrets would be released in open court.<sup>13</sup> Similarly, defendants faced difficulties in rebutting plaintiffs' allegation of infringement in patent suit.<sup>14</sup> The industry urged the judiciary to find a solution to strengthen its power over the discovery of evidence and to efficiently protect trade secrets. Due to these requirements, legislators introduced the protective order by using foreign systems, especially the U.S. protective order, as references.<sup>15</sup>

10. IP High Court's website is available at <[www.ip.courts.go.jp/index.html](http://www.ip.courts.go.jp/index.html)>. Japan modeled IP High Court after Court of Appeals for the Federal Circuit.
11. Makiko Takabe, "Intellectual Property Litigation: Future Issues (3)", AIPPI Journal 33 (2008) 143. This article, written in English by Judge Takabe, provides a good guidance to English readers to understand Japanese Intellectual Property lawsuits including protective orders.
12. Masaaki Kondo/Yuka Saitō, *Chiteki zaisan kankai ni-hō, Rōdō Shinpan Hō* [Intellectual Property Related Two Acts, Labor Trial Act] (2004), at 90; Toshiaki Makino et al., "Regarding the Law for Establishing an Intellectual Property High Court, and the Statute for Partly Amending the Court Organization Law. etc.", Intellectual Property Management 650 (2005), 449, 478; Makoto Ito et al., "*Shihō seido kaikaku ni okeru chiteki zaisan soshō no jūjitsu, jinsoku-ka wo hakaru tame no hō-kaisei ni tsuite* [About Amendment of Act to fulfill and fasten IP Lawsuits in Judicial System Reform]", Hanrei Taimuzu 1162 (2004) 4 at 4.
13. Makino et al., supra note 12, at 481, 482.
14. Id.
15. Kondo/Saitō, supra note 12, at 90.

To form a comprehensive set of secrecy preservations, closed trial for examination (Article 105-7(1) of Patent Act<sup>16</sup>) and the protective order in the *in camera* procedure (Article 105-4 (1) (i)) were also introduced. Closed trial is an exception to Article 82 of the Constitution stipulating the principle of open trial.<sup>17</sup> Emeritus Professor Nakayama of the Tokyo University recalled that the discussion of the exception to the Constitution for money matters was tabooed in 1990, but such resistance has lessened due to the recent pro-patent movement.<sup>18</sup>

### 3. PROTECTIVE ORDERS WILL EASE A PARTY'S PROOF WHILE PROTECTING TRADE SECRETS

Protective orders prohibit the usage of briefs and evidence containing trade secrets for any purpose other than litigation and the disclosure to parties other than the parties addressed. By imposing these requirements, it lowers the plaintiffs' burden of introducing evidence which is not possessed/accessed by them while enabling the defendants to defend themselves by submitting confidential information, such as detailed information on their product or process, without having to worry about misappropriation of their trade secrets by the plaintiffs who are usually also their

16. (Ban on open examination of parties, etc.)

#### Article 105-7

(1) When a party, etc., to litigation concerning the infringement of a patent right or exclusive license is to be examined as a party to the litigation, as its statutory representative or as a witness, with regard to matters that will be a basis for the determination of the existence or nonexistence of the said infringement, and such matters are trade secrets possessed by a party, the court may, by a ruling, elect to hold closed examinations of such matters where the court, upon the unanimous consent of all judges, finds that the parties, etc. will be unable to make sufficient statements regarding the matters due to the obvious fact that making statements regarding the matters at an open examination will significantly interfere with the business activities of the party based on such trade secrets and that, without such statements, a proper decision on the fact of the existence or non-existence of the infringement of a patent right or exclusive license that ought to be made based on the said matters may not be made based solely on other evidence.

(2) The court shall, in rendering the ruling as provided in the preceding paragraph, hear the opinions of the parties, etc. in advance.

(3) In the case of the preceding paragraph, where necessary, the court may cause the parties, etc., to present a document stating the gist of the matters to be stated. In such a case, no person may request the disclosure of the document presented.

(4) When the court finds it necessary to hear opinions by disclosing the document as provided in the latter sentence of the preceding paragraph, the court may disclose the document to the parties, etc., their attorneys or assistants.

(5) Where the examination on certain matters is to be closed under paragraph (1), the court shall declare such fact and reasons therefore prior to requiring the public to leave the court. Upon completion of the examination on the said matters, the court shall allow the public to re-enter the court.

17. Takabe, *supra* note 11, at 145.

18. Ito et al., *supra* note 12, at 19, 20; Makino et al., *supra* note 12, at 497.

business competitors.<sup>19</sup> This measure is a balance of interests and may bring more possibility of factual findings because of a full debate.

### 4. THE LAW

The literal translation of the so-called Protective Order in Japan is "Confidentiality Preservation Order under Patent Act". The protective Order has not only been introduced in the Patent Act, but also in the Utility Model Act,<sup>20</sup> the Design Patent Act,<sup>21</sup> the Trademark Act,<sup>22</sup> the Unfair Competition Prevention Act,<sup>23</sup> and the Copyright Act.<sup>24</sup>

The Patent Act reads as follows:<sup>25</sup>

#### (Protective order)

#### Article 105-4

(1) In litigation concerning the infringement of a patent right or exclusive license, where there is prima-facie evidence of the fact that trade secrets (refers to trade secrets as provided in Article 2(6) of the Unfair Competition Prevention Act (Act No. 47 of 1993), the same shall apply hereinafter) possessed by a party satisfy all of the following paragraphs, the court may, upon a motion of the party, order by a ruling that the parties, etc., attorneys or assistants shall neither use the trade secrets for any purpose other than those for the proceedings of the litigation nor disclose the trade secrets to any person other than those who receive the order regarding the trade secrets under this provision; provided, however, that this shall not apply where the parties, etc., attorneys or assistants have, prior to the filing of the motion, already obtained or been in the possession of the trade secrets by a method other than by reading of the briefs under item (i) or through the examination or disclosure of evidence under the said item:

- (i) where the trade secrets possessed by the party were or are contained in the briefs already submitted or to be submitted or such trade secrets were or are contained in the evidence already examined or to be examined (including documents disclosed under Article 105(3) and under Article 105-7(4)); and

19. Meeting Summary of IP Lawsuit Examination Committee, 6th Meeting, available at <[www.kantei.go.jp/jp/singi/sihou/kentoukai/titeki/dai6/6gaiyou.html](http://www.kantei.go.jp/jp/singi/sihou/kentoukai/titeki/dai6/6gaiyou.html)>. Makino et al., *supra* note 12, at 480.

20. Article 30.

21. Article 41.

22. Article 39.

23. Article 10-12.

24. Article 114-6 to 114-8.

25. Provided by Japanese Law Translation. Available at <[www.japaneselawtranslation.go.jp/?re=01](http://www.japaneselawtranslation.go.jp/?re=01)>.

- (ii) where it is necessary to restrict the use or the disclosure of the trade secrets under the preceding paragraph to prevent any possible interference with the party's business activities based on the trade secrets, that might arise if the trade secrets are used for any purpose other than those for the proceedings of the litigation or if the said trade secrets are disclosed.
- (2) A motion requesting the order under the preceding paragraph (hereinafter referred to as a "protective order") shall be made in writing specifying the following matters:
- (i) the person(s) to whom the protective order is to be issued;
  - (ii) the facts that clearly identify the trade secrets to be protected by the protective order; and
  - (iii) the facts corresponding to the reasons each of the items in the preceding paragraph is applicable.
- (3) Where the protective order is issued, a written ruling thereof shall be served to the person(s) to whom the protective order is issued.
- (4) The protective order shall take effect as of the date the written ruling is served to the person(s) to whom the protective order is issued.
- (5) The decision dismissing a motion requesting the protective order shall be subject to immediate appeal.

*(Rescission of protective order)*

*Article 105-5*

- (1) A person(s) who has filed a motion requesting a protective order or to whom a protective order is issued may file a motion with the court where the record of (a) case(s) is maintained (or, in the case of no such court maintaining the record of a case(s), the court issuing the protective order), requesting the rescission of the protective order on the ground that the requirements as provided in Article 105-4(1) are not met or are no longer met.
- (2) Where a decision on a motion requesting the rescission of a protective order is rendered, a written ruling thereof shall be served to the person who filed the motion and the adverse party in the case.
- (3) The decision on a motion requesting the rescission of a protective order shall be subject to immediate appeal.
- (4) A decision to the effect that a protective order is to be rescinded shall have no effect unless the decision becomes final and binding.
- (5) Where a decision to the effect that a protective order is to be rescinded is rendered, the court shall immediately notify the person(s) who, in the litigation in which the said protective order was issued, received the protective order pertaining to the trade secrets who are neither the person filing the motion requesting the rescission of the protective order nor the adverse party, if any, of the fact that the decision to the effect that the protective order is to be rescinded was rendered.

5. **APPLICABILITY OF PROTECTIVE ORDERS TO CASES OTHER THAN PATENT INFRINGEMENT LAWSUITS**

The Patent Act clearly stipulates that protective orders apply to patent infringement lawsuits, and not to the lawsuits for claiming remuneration for employee's invention or revocation lawsuits, although the necessity exists.<sup>26</sup> This has caused a delay in the lawsuits for claiming remuneration for employee's invention because companies can refuse to submit the necessary documents required for the calculation of profits and employee's contribution to the invention.<sup>27</sup> In response, the Japan Patent Office is preparing to submit a draft bill to amend the Patent Act to include protective orders in lawsuits for claiming remuneration for employee's invention to resolve these problems.<sup>28</sup> The bill may be submitted in 2011 at the earliest.<sup>29</sup>

There has been a debate on whether a protective order should be issued in preliminary injunctions. The IP High Court has held that protective orders cannot be issued in preliminary injunctions.<sup>30</sup> However, the Supreme Court then overturned this decision and held that protective orders may be issued in preliminary injunctions.<sup>31</sup> Now that the Supreme Court has created case law to end this debate, and accused infringers against whom a petition for preliminary injunction has been filed can now consider filing a motion for a protective order to defend themselves and ease their burden of proof. Patentees should be careful when filing a petition for preliminary injunction, as they may be faced with a protective order and potential criminal sanctions.

6. **NUMBER OF CASES IN WHICH A PROTECTIVE ORDER WAS ISSUED**

Only a few protective orders have so far been issued. From 2005, when protective orders were introduced, until 2008, two protective orders were issued by the Tokyo District Court, and one was issued by the Osaka District Court, but part of this was rescinded later.<sup>32</sup> It seems that the ultimate aim of legislation may not have been accomplished, as the number of cases in which a protective order has been issued is far lower than the average number of IP lawsuits filed annually, which ranges from 500 to 600.<sup>33</sup>

26. Some commentators have stated that protective orders could be issued in revocation lawsuits, however criminal sanction cannot be issued. See Abe, Ikubo & Katayama & Yukio Nagasawa, *Heisei 16-nen kaisei Saibanshohō-tō wo kaisei suru hōritsu no kaisetsu* [2004 Amendment, Explanation of Court Act Amendment Act] (2005) at 40.

27. Nikkei Newspaper, June 25, 2010.

28. *Id.*

29. *Id.*

30. IP High Court, July 7, 2008.

31. Supreme Court, January 27, 2009, Hanrei Taimuzu 1929 (2009) 154.

32. Hanrei Taimuzu 1301 (2009) 67, 82.

33. Hanrei Taimuzu 1322 (2010) 5, 25.

It has been observed that the severe criminal sanctions associated with protective orders are the main reason that the protective order has not been frequently used.<sup>34</sup> Courts have continuously emphasized that a cautious approach in this area's practice is necessary due to the associated criminal sanctions.<sup>35</sup> However, Mr. Ozaki, an attorney-at-law, opposes this practice. He said that in practice criminal sanctions will be limited only to a vicious case where disclosure was intentional and the prosecutor has decided to prosecute, thus the cautious approach caused by the criminal sanctions associated with protective orders should be abandoned and protective orders should be used more often.<sup>36</sup>

#### 7. CASES WHERE A PROTECTIVE ORDER WAS ISSUED

The first protective order case was in a pharmaceutical patent infringement case.<sup>37</sup> An Italian company sued a Japanese distributor alleging that the defendant's medical product had infringed their patent.<sup>38</sup> One of the issues in the lawsuit was the degree of examination by the Ministry of Health, Labor and Welfare (MHLW) and the Pharmaceutical and Medical Devices Agency (PMDA) on the equivalency of both parties' products. The defendant planned to produce examination materials which it had submitted to the MHLW and the PMDA. Prior to the production, the defendant filed a motion for protective order alleging that the examination materials contain experimental data which constitutes trade secrets. The Tokyo District Court issued a protective order.

The Osaka District Court issued a protective order in an LED chip case.<sup>39</sup> The plaintiff sued the defendants alleging that the defendants' semiconductor product infringes its patent. A U.S. company which manufactured the LED chips used in the defendants' product intervened in the lawsuit. The U.S. company planned to produce an analysis report of the detailed structure of their product. Prior to this, the U.S. company filed a motion for a protective order which the Osaka District Court granted. Subsequently, the addressees filed a motion for rescission of the protective order, alleging that part of the information had already been disclosed in the briefs, articles, patents, and that therefore the petitioner lacked grounds for a protective order. The Osaka District Court agreed in part and rescinded part of the protective order.<sup>40</sup>

As described earlier, the Supreme Court in 2009 created case law holding that a protective order may be issued in preliminary injunctions. In this case, a Japanese

34. Judge Ohtaka explained that another reason may be because protective orders are limited to infringement lawsuits. See *supra* note 32, at 82.

35. *Id.*

36. Hanrei Taimuzu 1240 (2007) 4, at 11, 12.

37. Tokyo District Court, September 15, 2006, Hanrei Jihō 1973 (2007) 131.

38. The plaintiff was accused under the Unfair Competition Prevention Act as well.

39. Osaka District Court, April 18, 2008, Hanrei Taimuzu 1287 (2009) 220.

40. Osaka District Court, December 25, 2008, Hanrei Taimuzu 1287 (2009) 227.

company filed a petition for preliminary injunction against a Korean company's subsidiary in Japan, alleging that the importation and the sale of a liquid crystal television apparatus and a liquid crystal monitor had infringed its patent. The Korean company's subsidiary in Japan planned to produce a brief which was to contain trade secrets. Prior to the production, it filed a motion for a protective order which both the Tokyo District Court and the IP High Court rejected, holding that a protective order cannot be issued in preliminary injunction proceedings. The Supreme Court overturned the decision, holding that a protective order may be issued in preliminary injunction proceedings.

It can be seen from these three cases that the protective orders issued so far concerned large patent cases with complicated technology where foreign companies were involved. Thus, the importance of protective orders for non-Japanese companies should not be underestimated.

#### 8. ADDRESSEE

Addressees of protective orders are parties, etc., and attorneys or assistants. "Parties, etc" is defined as follows; "parties (or, in the case of juridical persons, their representatives), their representatives (excluding attorneys and assistants), employees and other workers" (Patent Act 105 (3)). Whether experts such as a university professor can be "parties, etc." is an issue. Judge Oda, formerly of the Tokyo District Court, who was involved in this legislation expressed a positive view that experts should be deemed as "their representatives" and be subject to protective orders.<sup>41</sup> Although in agreement, Judge Yoshimura, formerly of the Tokyo District Court, cautioned that the company who retained the expert will not be released from criminal sanctions if the expert violates the protective order and thus the companies should only retain trustworthy experts.<sup>42</sup> Some attorneys expressed their concern that attorneys cannot bear the responsibility if the disclosure is limited to attorneys.<sup>43</sup> Commentators expressed their view that such attorneys who are not confident enough have no choice but to resign.<sup>44</sup> Company employees who had access to the adverse party's trade secret will face a problem not to be able to distinguish information of the company and of the adverse party (contamination of information).<sup>45</sup> Thus, engineers who can evaluate the adverse party's trade secret may avoid being regarded as an addressee on the basis that being an addressee will affect his/her R&D activities in the future. The same concern is seen in U.S. litigation. Mr. Tomohiko Makino, an attorney-at-law who has experience of being an addressee, pointed out that this is the

41. Makino et al., *supra* note 12, at 489.

42. *Id.*

43. Wataru Sueyoshi, "Himitsu hoji meirei ni tsuite [About Protective Order]", L&T 27 (2005) 19, at 19. Ito et al., *supra* note 12, at 7; Takabe, *supra* note 11, at 151.

44. Ito et al., *supra* note 12, at 12.

45. Sueyoshi, *supra* note 43

biggest problem of the current protective order.<sup>46</sup> He said that, without an engineer, addressees cannot assess the opponent's argument and/or conduct experiments to rebut opponent's analysis.<sup>47</sup>

The law requires the petitioner to designate addressees of the protective order and thus the adverse party has no right to propose who shall be the addressee. However, the petitioner may not have information to whom the adverse party's trade secret should be disclosed. Thus, the practice is that parties negotiate as to whom shall be the addressee with the assistance of the court.<sup>48</sup>

A critical difference of Japanese protective orders as compared to U.S. protective orders can be outlined as follows. Former Judge Mimura, formerly of the Tokyo District Court, and Judge Yamada, formerly of the Osaka District Court, expressed their strict view that the addressee shall not let his employees draft, type, copy and/or submit the brief which contains trade secrets.<sup>49</sup> This means attorneys shall copy and submit the brief by themselves which inevitably creates a heavy burden on them. Facing the attorneys' resistance, the former Judge Mimura further explained that although he understands that the attorneys prefer to entrust trustworthy secretaries to copy such trade secrets on their behalf, responsibility should be borne by the attorney-addressee once the trade secret is released.<sup>50</sup> Judge Ichikawa, formerly of the Tokyo District Court, justified this approach on the basis that documents containing trade secrets may simply consist of a few dozen pages at maximum which is far less than the quantities normally produced in a U.S. discovery.<sup>51</sup>

Personnel changes or resignation of employees could be a problem. However, it will not affect their obligations under the protective order. The employees continue to have the duty not to disclose trade secrets unless the protective order is rescinded. Attorneys are expected to possess employee-addressee's address.<sup>52</sup>

## 9. TERM

The protective order will be valid until it is rescinded. Theoretically it can be an order with no term limit. During the legislation process, there was the idea to confine the term to a certain period. Indeed, a committee member stated that a protective

46. Tomohiko Makino, "Himitsu hoji meirei oyobi himitsu hoji meirei torikeshi kettei no jitsumu-jō no mondaiten [Problems of Protective Order and Rescission of Protective Order – Experience from being an Addressee]", AIPPI Journal 55 (2010), 606 at 612-613.

47. Id.

48. Makino et al., supra note 12, at 484, 485.

49. Ryōichi Mimura/Tomoji Yamada, "Chiteki zaisan soshō ni okeru himitsu hoji meirei no un'yō ni tsuite [About Practice of Protective Order in IP Lawsuits]", Hanrei Taimuzu 1170 (2005) 4, at 10; Makiko Takabe, "Himitsu hoji meirei Q&A [Protective Order Q&A]", Chizai Prism 40 (2006) 20, at 29.

50. Hanrei Taimuzu 1207 (2006), 4, at 28.

51. Hanrei Taimuzu 1271 (2008), 5, at 13.

52. Mimura/Yamada, supra note 49, at 10, 11; Takabe supra note 49, at 29.

order has an indefinite effect if the sanction can only be lifted upon rescission.<sup>53</sup> However, a thorough protection of IP was regarded most important and outweighed the abovementioned concerns.

Rather than having an indirect way of rescission, Mr. Tomohiko Makino proposed to create a system where petitioners can revoke their motion after the protective order is issued, since petitioners may have an incentive to revoke the protective order once the case is settled.<sup>54</sup>

## 10. CRIMINAL SANCTIONS

The sanctions associated with a protective order are severe. An addressee violating a protective order will be subject to criminal sanctions. An individual may be subject to a maximum penalty of 5 years in prison and/or a fine of JPY 5 million (Article 200-2 (1) of the Patent Act). This applies to a person who commits the crime outside of Japan (Article 200-2 (3) of the Patent Act). A corporation may be subject to a maximum penalty of JPY 300 million (Article 201 (1) of the Patent Act).

Criminal sanctions were introduced because civil sanctions, such as damages or injunctions, were deemed not sufficient to prevent violation once the trade secret is released and thus the need for criminal sanctions as a deterrence factor was apparent.<sup>55</sup> The problem remains, however, because the trade secrets will be released in open court during the criminal procedure if the criminal sanctions are pursued. However, Professor Nakayama actually viewed the significance of criminal sanctions with a positive note.<sup>56</sup> Professor Obuchi of the Tokyo University cautioned that the practice of protective orders would fail if there were many violations and consequently many criminal sanctions.<sup>57</sup>

## 11. CONFIDENTIALITY AGREEMENT

A confidentiality agreement is used in two situations: (1) in the lawsuit where a protective order does not apply and (2) in a lawsuit where the protective order applies but a more flexible approach is desired.<sup>58</sup>

An example of the former is a lawsuit for claiming remuneration for an employee's invention. In some cases, parties agree with a confidentiality agreement so

53. Meeting Summary of IP Lawsuit Examination Committee, 13th Meeting. Available at <www.kantei.go.jp/jp/singi/sihou/kentoukai/titeki/dai13/13gaiyou.html>; Kondo/Saitō, supra note 12, at 95.

54. Tomohiko Makino, supra note 46 at 617.

55. Ito et al., supra note 12, at 6.

56. Id.

57. Makino et al., supra note 12, at 482.

58. Toshiaki Iimura/Ryūichi Shitara, *Chiteki zaisan kankei soshō* [IP Related Lawsuits] (Seirin Shoin 2008), at 51

that one can produce confidential information to calculate the profit or the inventor's contribution.<sup>59</sup> However, disputes as to the terms of the confidentiality agreement such as the penalty clause will delay the procedure.<sup>60</sup>

For the latter, confidentiality agreements have been used as a substitute for protective orders to avoid its problems, such as attorneys' inability to fully bear the responsibility, contamination of information, and the uncertainty of enforceability of the protective order on foreign companies' engineers residing outside of Japan, etc.<sup>61</sup> However, Judge Ohtaka of the Tokyo District Court expressed a recognition of the difficulties which exist in forming a confidentiality agreement.<sup>62</sup> For example, when parties cannot agree on the penalty clause, thus resulting in another battle.<sup>63</sup> Thus, Judge Ohtaka proposed to change the current practice which makes the protective order a last tool to a new practice where parties are able to choose whichever is preferable according to the nature of the case.<sup>64</sup>

### III. COMPARISON WITH U.S. AND TAIWAN

As described earlier, the basic concept of the protective order in Japan has been taken from the U.S. Protective Order under Article 26 (c) (G) of the U.S. Federal Rules of Civil Procedure.<sup>65</sup> However, there are many differences between the two systems. A U.S. protective order provides various means which allow for more flexible approaches. However, the protective order in Japan immediately attracted the attention of its neighboring country, Taiwan, which shares similar civil law traditions. Also with a significant information technology industry, Taiwan established its Intellectual Property Court ("IP Court") in 2008, acknowledging a demand for a specialized

59. Id.

60. Id.

61. Iimura/Shitara, *supra* note 58, at 51, 52.

62. *Supra* note 32, at 83.

63. Id.

64. Id.

65. (1) In General. A party or any person from whom discovery is sought may move for a protective order in the court where the action is pending — or as an alternative on matters relating to a deposition, in the court for the district where the deposition will be taken. The motion must include a certification that the movant has in good faith conferred or attempted to confer with other affected parties in an effort to resolve the dispute without court action. The court may, for good cause, issue an order to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following: (A) forbidding the disclosure or discovery; (B) specifying terms, including time and place, for the disclosure or discovery; (C) prescribing a discovery method other than the one selected by the party seeking discovery; (D) forbidding inquiry into certain matters, or limiting the scope of disclosure or discovery to certain matters; (E) designating the persons who may be present while the discovery is conducted; (F) requiring that a deposition be sealed and opened only on court order; (G) requiring that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a specified way; and (H) requiring that the parties simultaneously file specified documents or information in sealed envelopes, to be opened as the court directs.

and professional court for IP cases. In the establishment of the Intellectual Property Adjudication Act in 2008, Taiwan implemented the Japanese style protective order and named it "Confidentiality Preservation Order", identical to that of Japan.<sup>66</sup> This is the first exportation of Japan's protective order. In the next paragraphs, this article intends to introduce aspects of U.S. and Taiwan's protective orders, and the current which first swept Japan from the U.S., and then from Japan to Taiwan.

#### 1. COMPARISON WITH U.S.

##### a) U.S. Protective Orders are not Limited to IP Cases

Unlike the protective order in Japan, which is stipulated under several IP laws, the U.S. protective order as stipulated in the Federal Rules of Civil Procedure under Rule 26(c) applies to all civil cases. A U.S. protective order not only protects trade secrets' disclosure but can be an order to completely bar a party's request for the other party's document disclosure. Among the eight categories which the law specifies, Rule 26 (c) (G) specifically provides protection for business confidential information and trade secrets<sup>67</sup> which is close to the protective order in Japan.

##### b) Stipulation of Protective Order

Rule 26 (c) requires a good faith attempt to resolve the dispute before filing a motion.<sup>68</sup> Many local court rules of the U.S. federal district courts also require that the parties "meet and confer" prior to filing any discovery motion.<sup>69</sup> Thus, typically protective orders are stipulated.<sup>70</sup> In Japan, laws do not require parties to negotiate before filing a motion for a protective order. Parties may negotiate for the designation of addressees of the protective order, but with the court's involvement. The court has the initiative when a motion for a protective order is filed and will not merely leave the matter to parties to stipulate.

##### c) Discovery Continues in the Absence of a Protective Order

In the U.S., "when the parties cannot agree on the terms of protective order, one or both parties may move for entry of its version. While such a motion is pending, however, it is usually in the interest of both parties to continue with discovery on the

66. IP Court, Taiwan, The Introduction of the confidentiality preservation order. Available at <[ipc.judicial.gov.tw/ipr\\_english/index.php?option=com\\_content&task=view&id=27&Itemid=51](http://ipc.judicial.gov.tw/ipr_english/index.php?option=com_content&task=view&id=27&Itemid=51)>

67. Kimberly A. Moore, et al., *Patent Litigation and Strategy* (3rd edn., West 2008), 190.

68. Moore et al., *supra* note 67, at 188.

69. Id.

70. Laurence H. Pretty, *Patent Litigation*, (PLI 2007) 3-37.



basis that the information is produced on an 'outside counsel's eyes only basis.'<sup>71</sup> Japan does not have this flexible approach and the proceedings will simply be delayed.

**d) Tiers of Confidentiality**

One of the typical provisions in U.S. protective orders is tiers of confidentiality. A "party will regard some information as more sensitive than other information. For example, a party may believe that its marketing plans, financial information, and the like are more sensitive than its technical information. Protective orders often include a second category, and information designed as within that category may be shown to a more restricted class of persons than other confidential information."<sup>72</sup> From our practical experience, U.S. patent litigation often involves parties disputing whether to have two tiers or one tier. Such means is not available in the protective order regime in Japan.

**e) Attorneys-Eyes-Only Information Could Be Disclosed to Company Executives for Settlement Purposes**

In our experience of U.S. patent litigation, it may be possible to agree to disclose part of attorneys' eyes only information to limited company executives like the CEO or general counsel so that they can make a decision whether to settle or not. Normally, this would be done by a side letter between trial counsel without any formal amendment of the Protective Order. A U.S. protective order is also very flexible in this aspect. The demand to disclose such information to company executives for settlement purposes certainly exists in Japan as well. However, in Japan, if the addressees are limited to attorneys, and attorneys would like to disclose such information to company executives for settlement purposes, another motion for a protective order needs to be filed in order to add the company executives as addressees.

**f) Patent Prosecution Bar**

"Many protective orders in patent cases contain what is commonly known as a "patent prosecution bar", which restricts those persons who have viewed a competitor's confidential information from prosecuting patent applications for a limited number of years after the litigation concludes. The rationale is that even well-intentioned prosecution counsels may not be able to separate in their minds the opponent's confidential information, and therefore may misuse it to obtain patent claims that cover the very technology they have learned from their opponent."<sup>73</sup> In Japan, as described earlier, contamination of information is deemed a critical problem, although

71. Id.  
72. Id. at 3-33.  
73. Id. at 3-34.

the relevant discussion only focuses on engineers rather than patent prosecutors. However, discussion should take place on the prosecution bar issue in Japan as well.

**g) Inadvertent Failure to Designate**

"A protective order should provide that in the event of an inadvertent failure to designate information as confidential in a timely manner, a party should still be permitted to do so under appropriate circumstances, and the opposing party will treat the information as appropriately designated as of that date."<sup>74</sup> The rationale behind this is that "everybody makes mistakes".<sup>75</sup> From our practical experience, the above is not uncommon in U.S. patent litigation. The protective order regime in Japan does not seem to have the same flexible tool. If a party is confronted with the same issue, a new motion may need to be filed.

**h) Violation of Protective Orders**

Defiance of a protective order is contempt of court and the consequential penalties may include fines and/or incarceration.<sup>76</sup> Sanctions have been entered under the contempt powers of the courts.<sup>77</sup> In general, U.S. attorneys are very concerned about violating protective order and courts and attorneys take these matters very seriously. Nonetheless, from our practical experience, U.S. attorneys in a U.S. patent litigation view the protective order as a routine practice and potential criminal sanctions, which have been relatively rare, were not the reason to stop them from utilizing such a practice. This is vastly different from Japan where Japanese attorneys resist filing a motion for a protective order owing to concerns of the potential threat of criminal sanctions.

**i) Conclusion**

As the two systems have their essential differences as introduced in the preceding paragraphs, the experience in Japan does not mirror that of the U.S. protective order although the Japanese protective order derives from that of the U.S. However, the question remains for future development and for future comparison on the potential effect of abolishing the criminal sanctions associated the protective order in Japan.

74. Id. at 3-36.

75. Id.

76. Anita Hotchkiss/Diane M. Fleming, "Protecting and Enforcing Protective Orders: Easier Said Than Done", *Def. Couns. J.* 71 (2004), 161, 166.

77. James R. Jarrow, "Industrial Espionage? Discovery Within the Rules of Civil Procedure and the Battle for Protective Orders Governing Trade Secrets and Confidential Information", *Washburn L.J.* 32 (1992-1993), 318, 324.

## 2. COMPARISON WITH TAIWAN

## a) Moving Protective Orders from Japan towards Taiwan

The experience with protective orders in Taiwan is used to illustrate the responses of the Taiwanese IP practitioners on the Japanese protective order and thus no detailed comparison of the two systems will be discussed in this article.

Similar to the concept of an organ transplant, the protective order of Taiwan under Article 11 to Article 15 of its Intellectual Property Adjudication Act is identical to that of Japan's, but with only slight variations. Structurally, Taiwan enacted a law to cover all procedural issues in relation to the IP cases, i.e. the Intellectual Property Adjudication Act, and the protective order is provided there rather than separately in Taiwan's Patent Act, Trademark Act, or Copyright Act. Judge Huang, the Deputy Director-General of the Department of Judicial Administration, Judicial Yuan, Taiwan, who was involved in the legislation, said "frankly speaking it is almost a direct translation of Japanese provisions."<sup>78</sup>

## b) Rare Experience of Granting a Protective Order

Facing the new court and a new law, the Judicial Yuan of Taiwan is keen to know the reactions in order to promote the next movement. Three sessions of discussions have been held by the IP Court under the Judicial Yuan's assistance.<sup>79</sup> The practice of the protective order was one of the major issues in these discussions.

Similar to Japan's experience, protective orders have been rarely granted in Taiwan. According to Taiwan's IP Court's statistics, there have been ten applications for protective orders since July 2008 until October 2010, and four and half were granted.<sup>80</sup> In a similar period, the IP Court received 740 civil actions and 649 criminal actions for IP disputes. The number of cases shows the inconsistency with

78. Judicial Yuan, Taiwan, Meeting Minutes of the Discussions on the Laws and Regulations of the IP Adjudication Cases (I) at 42, 43(2009). Available at <www.judicial.gov.tw/IPProperty/work12/(3)98%E5%B9%B411%E6%9C%8823%E6%97%A5%E7%AC%AC1%E6%AC%A1%E6%9C%83%E8%AD%B0%E7%B4%80%E9%8C%84.doc> [hereinafter Judicial Yuan, Taiwan, DISCUSSIONS ON IP CASES (I)] (statement of Judge Lin-Lung Huang, Judicial Yuan, Taiwan. The attendees included professors from law schools, judges from the Judicial Yuan of Taiwan, some of whom had been involved in drafting the bill for the legislation, judges from the IP Court, representatives from Taiwan's Intellectual Property Office, attorneys and companies' in-house counsel.)

79. Judicial Yuan, Taiwan, Meeting Minute of the Discussions on the Laws and Regulations of the IP Adjudication Cases (III) at 2 (2009). Available at <www.judicial.gov.tw/IPProperty/work12/(5)98%E5%B9%B412%E6%9C%8804%E6%97%A5%E7%AC%AC3%E6%AC%A1%E6%9C%83%E8%AD%B0%E7%B4%80%E9%8C%84.doc> [hereinafter Judicial Yuan, Taiwan, DISCUSSIONS ON IP CASES (III)] (statement of Judge Shioh Jen, Kao, President of IP Court).

80. IP Court, Taiwan, State of Termination by the Preventive Proceeding, Preservation of Evidence & Confidentiality Preservation Order in the First Instance. Available at <ipc.judicial.gov.tw/ipr\_english/doc/Statistics/Confidentiality.xls>.

the demand of the legislation. Thus, those concerned were hoping to know what and how to improve the current protective order.

## c) The Issued Protective Orders Related to Both Confidential Technical and Non-Technical Information

Since judgments granting or denying protective orders are not disclosed, the details of the cases are unknown. However, there was an opportunity for practitioners to know more about protective orders while the applicants appealed to the Supreme Court. The Supreme Court reported two cases. In addition to that, the following statements made by the judges of the IP Court have provided some insights. In the discussions regarding assessment of the issuance of protective orders, Judge Lin said, "I have approved one for a case involving the computer software patent because we have to investigate the method which the accused infringer used to reach certain results. ... Another case involved the copyright of a computer program. The court has nothing to compare if a protective order is not issued."<sup>81</sup> It can be inferred from Judge Lin's statement that the two protective orders granted by her were, in principle, related to confidential technical information. Taiwan's protective order does not exclude trade secrets not related to technology. Unlike Japan's reported cases which were all in relation to the confidential technical information, the two cases reported by the Supreme Court were both in relation to the confidential commercial sales information.

## d) The Cloud of Criminal Sanctions Overshadows the Future Possible Use of Protective Orders

Criminal sanctions are a major concern for Taiwan as they are for Japan and these also act as a disincentive for applying the laws relating to a protective order. Judge Lin of the IP Court said that due to the concern regarding criminal sanctions, if one of the parties disagrees with the issuance of the protective order, she would then turn to ask both parties' attorneys to sign a confidentiality agreement to make both evidence production and trade secret protection a civil liability. Parties would decide the scope of the production by themselves. Judge Lin remarked that "this is what Japan is doing."<sup>82</sup> The judge further mentioned that "if the secrecy of the commercial information which is not related to the technology needs to be proved, it is possible to be granted the protective order. However, we are worrying about the abuse of using the criminal proceeding if granting a protective order to protect commercial information does not relate to technology. We take a cautious approach on this."<sup>83</sup>

81. Judicial Yuan, Taiwan, DISCUSSIONS ON IP CASES (I), supra note 78, at 38 (statement of Judge Gloria H.J. Lin, IP Court).

82. Judicial Yuan, Taiwan, DISCUSSIONS ON IP CASES (I), supra note 78, at 39 (statement of Judge Gloria H.J. Lin, IP Court).

83. Id. at 42.

The insights expressed by the judge show that in relation to commercial information which is not related to technology, most of the cases are still utilizing the traditional procedural laws to achieve the purpose of debate: e.g. parties agree to a contractual confidentiality agreement; only the expert can have access to the confidential commercial information and the parties debate based on the expert opinion without access to the confidential commercial information; and the judge orders a party to produce a document under the Civil Procedure Code along with the effects of fines if the party does not follow the order, or the judge performs his or her discretionary power to grant an assumption on the facts if the party who possesses the evidence refuses to produce, etc.

The criticisms in Taiwan revolve around criminal sanctions over a violation of a protective order and that it may represent an undue legislation given that it is an interim proceeding in a lawsuit, and that even the Trade Secret Protection Law of Taiwan does not provide criminal penalties for the violators. Furthermore, the practitioners, including the attorneys, the staff in the law firms or the company employees are very hesitant to face the issuance of a protective order because of concerns as regards criminal sanctions. The practitioners are worrying that "shots will be fired" if the parties are fighting drastically and that the protective order will become a purely tactically instrument because of the experience that the criminal action can be applied to achieve the purpose in civil matters.

As a consequence, the judges in the IP Court and the practitioners have drawn a line on the application and the issuance of protective orders and have thus confined themselves, i.e. the practitioners are conservative and prudent towards an application of a protective order; and the judges will consider whether there are other alternatives in the procedural law to investigate the evidence and make the issuance of a protective order a "last resort" should the case not be able to proceed if a protective order is not granted. Judge Huang who was involved in drafting the bill said, "although the provisions of protective order occupy a great portion of the Intellectual Property Adjudication Act, we emphasized and reiterated when drafting the bill that this is a system for future possible use."<sup>84</sup> One year after the system of protective orders was enacted, Judge Kao, president of IP Court said, "This is a system for future possible use."<sup>85</sup> The statement may very well be true and protective orders can be seen as a trend moving to the future.

#### IV. CONCLUSION

Although the Japanese legislators have expressly indicated that the U.S. protective order was used as a reference point when introducing the Japanese protective order regime, the two regimes are vastly different in law and in practice. Protective

84. Judicial Yuan, Taiwan, DISCUSSIONS ON IP CASES (I), supra note 78, at 43 (statement of Judge Lin-Lung Huang, Judicial Yuan).

85. Judicial Yuan, Taiwan, DISCUSSIONS ON IP CASES (III), supra note 79, at 39 (statement of Judge Shiow Jen, Kao, president of IP Court).

orders in Japan are not as frequently used as originally expected. The reason for this rather cold reception is likely to have been caused by the chilling effect of the criminal sanctions associated with protective orders. The same phenomenon can also be seen in Taiwan. Despite years of reform, a full debate in the court room is still lacking. The fact that a protective order is used only as the absolute last resort in Taiwan greatly limits the capability of a protective order to be a useful tool in ensuring a full debate, and, as a result, the parties in trial continue to rely on the limited evidence provided voluntarily. The limited and cautious use of protective orders in Japan has yielded similar results. There is a clear need for change in both the law and the practice for practitioners to fully utilize protective orders effectively in trials. One tends to think of the following in making suggestions for change: Are criminal sanctions substantially hindering the application of protective orders? Will an amendment of the law to lessen the criminal sanctions be helpful? If there are no criminal sanctions similar to contempt of court in the common-law system, how will the confidentiality of the documents be secured? In Japan and Taiwan, the obligation of document production under the law is rather loose, making protective orders not an indispensable tool. Thus, it may not be sufficient to only examine protective orders to find a feasible resolution. In the U.S., parties are required to produce a broad scope of documents as long as the documents and information are relevant. It is very clear that for the U.S., the protective order is indispensable in discovery. In order that the protective order will become an effective tool which can be used to achieve and ensure that a full debate takes place in the court room during litigation, and to ease the burden of proof of parties, it may be worthwhile to contemplate the possibility of establishing a more comprehensive evidence discovery regime.